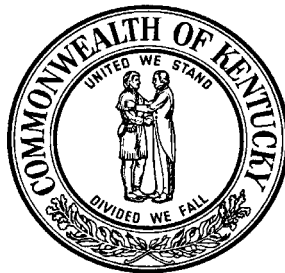


**REPORT OF THE AUDIT OF THE  
FORMER NICHOLAS COUNTY  
SHERIFF'S SETTLEMENT - 2001 TAXES**

**May 25, 2002**



**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**  
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**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
FORMER NICHOLAS COUNTY  
SHERIFF'S SETTLEMENT - 2001 TAXES**

**May 25, 2002**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2001 Taxes for former Nicholas County Sheriff as of May 25, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The former Sheriff collected taxes of \$1,265,906 for the districts for 2001 taxes, retaining commissions of \$51,101 to operate the Sheriff's office. The former Sheriff distributed taxes of \$1,213,976 to the districts for 2001 Taxes. Taxes of \$314 are due to the districts from the former Sheriff and refunds of \$3,347 are due to the former Sheriff from the taxing districts. Our audit reflects a \$682 deficit in the 2001 tax account.

**Report Comments:**

- The Former Sheriff Should Eliminate \$682 Deficit In Tax Account
- The Former Sheriff Should Prepare A Tax Settlement By September 1 And Publish The Settlement
- The Former Sheriff Should Implement Daily Cash Check-Out Procedures And Deposit Funds Intact On A Daily Basis
- The Former Sheriff Should Obtain County Revenue Bond To Protect The County From Potential Loss
- Lacks Adequate Segregation Of Duties

**Deposits:**

The former Sheriff's deposits were insured and collateralized by bank securities or bonds.



## CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT .....	1
SHERIFF'S SETTLEMENT - 2001 TAXES .....	3
NOTES TO FINANCIAL STATEMENT .....	5
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS .....	7
COMMENTS AND RECOMMENDATIONS .....	11
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	17





**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Larry Tincher, Nicholas County Judge/Executive

Honorable Charles Ring, Former Nicholas County Sheriff

Honorable Leonard "Dick" Garrett, Nicholas County Sheriff

Members of the Nicholas County Fiscal Court

Independent Auditor's Report

We have audited the former Nicholas County Sheriff's Settlement - 2001 Taxes as of May 25, 2002. This tax settlement is the responsibility of the former Nicholas County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Nicholas County Sheriff's taxes charged, credited, and paid as of May 25, 2002, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated July 21, 2003, on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Larry Tincher, Nicholas County Judge/Executive

Honorable Charles Ring, Former Nicholas County Sheriff

Honorable Leonard "Dick" Garrett, Nicholas County Sheriff

Members of the Nicholas County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Former Sheriff Should Eliminate \$682 Deficit In Tax Account
- The Former Sheriff Should Prepare A Tax Settlement By September 1 And Publish The Settlement
- The Former Sheriff Should Implement Daily Cash Check-Out Procedures And Deposit Funds Intact On A Daily Basis
- The Former Sheriff Should Obtain County Revenue Bond To Protect The County From Potential Loss
- Lacks Adequate Segregation Of Duties

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Respectfully submitted,



Edward B. Hatchett, Jr.

Auditor of Public Accounts

Audit fieldwork completed -

July 21, 2003



NICHOLAS COUNTY  
CHARLES RING, FORMER COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2001 TAXES

May 25, 2002

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 196,836	\$ 158,637	\$ 587,309	\$ 217,640
Tangible Personal Property	5,397	3,119	13,101	18,324
Intangible Personal Property				9,308
Taxes Increased Through				
Erroneous Assessments	77	68	229	481
Franchise Corporation	21,478	16,344	54,155	
Penalties	1,907	1,585	5,680	2,133
Adjusted to Sheriff's Receipt	<u>5</u>	<u>4</u>	<u>4</u>	<u>(4)</u>
Gross Chargeable to Sheriff	<u>\$ 225,700</u>	<u>\$ 179,757</u>	<u>\$ 660,478</u>	<u>\$ 247,882</u>
<u>Credits</u>				
Exonerations	\$ 602	\$ 502	\$ 1,796	\$ 1,155
Discounts	2,840	2,242	8,433	3,510
Delinquents:				
Real Estate	4,474	3,812	13,349	4,947
Tangible Personal Property	26	14	63	63
Uncollected Franchise Taxes	<u>21</u>	<u>11</u>	<u>51</u>	
Total Credits	<u>\$ 7,963</u>	<u>\$ 6,581</u>	<u>\$ 23,692</u>	<u>\$ 9,675</u>
Taxes Collected	\$ 217,737	\$ 173,176	\$ 636,786	\$ 238,207
Less: Commissions *	<u>9,541</u>	<u>5,678</u>	<u>25,471</u>	<u>10,411</u>
Taxes Due	\$ 208,196	\$ 167,498	\$ 611,315	\$ 227,796
Taxes Paid	207,991	167,102	611,708	227,175
Credit For Commissions Per KRS 134.290				2,987
Penalty Per KRS 43.990				45
Refunds	<u>152</u>	<u>135</u>	<u>463</u>	<u>170</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 53</u>	<u>\$ 261</u>	<u>\$ (856)</u>	<u>\$ (2,491)</u>

\*and\*\* See Page 4.

The accompanying notes are an integral part of this financial statement.

NICHOLAS COUNTY  
CHARLES RING, FORMER COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2001 TAXES  
May 25, 2002  
(Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	567,356
4% on	\$	636,786
1% on	\$	51,764

\*\* Special Taxing Districts:

Library District	\$	13
Health District		17
Fire District		<u>231</u>
Due Districts	\$	<u><u>261</u></u>

NICHOLAS COUNTY  
NOTES TO FINANCIAL STATEMENTS

May 25, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue that are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue that are recognized when there is proper authorization. Taxes paid are uses of revenue that are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of May 25, 2002, the former Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the former Sheriff's agent in the former Sheriff's name, or provided surety bond which named the former Sheriff as beneficiary/obligee on the bond.

NICHOLAS COUNTY  
NOTES TO FINANCIAL STATEMENT  
May 25, 2002  
(Continued)

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2001. Property taxes were billed to finance governmental services for the year ended June 30, 2002. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 28, 2001 through May 25, 2002.

Note 4. Interest Income

The former Nicholas County Sheriff earned \$940 as interest income on 2001 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The former Nicholas County Sheriff collected \$8,755 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The former Nicholas County Sheriff collected \$260 of advertising costs and \$170 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The former Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

Note 7. Deficit Balance

Based on available records as of the audit date, there was a \$682 deficit in the Sheriff's 2001 Tax Account. A Schedule of Excess of Liabilities Over Assets is included in this report as a supplemental schedule. The schedule includes deficits reported in the prior year report on 2000 taxes. As of the current year audit date, the Sheriff had satisfied the deficit reflected in the prior year report.

NICHOLAS COUNTY  
CHARLES RING, FORMER COUNTY SHERIFF  
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

May 25, 2002

Assets

Cash in Bank (All Tax Accounts)		\$	17,676
Deposits in Transit			1,165
Receivables:			
Due from Taxing Districts-			
2001 Taxes-			
State	\$	2,491	
School		856	3,347
1999 Taxes-			
State	\$	78	
County		240	
School		564	
Health		74	
Fire		10	
School Interest Overpaid		29	995
2000 Fee Account - Hospital Fund Repayment Deposit			150
2001 Fee Account - Bank Share Commissions			208
Sheriff's Personal Funds			5,093
Total Assets		\$	28,634

Liabilities

Paid Obligations-			
Outstanding Checks	\$	2,251	
Other Taxing Districts-			
2001 Taxes-			
State		1,840	
County		1,664	
School		5,186	
Library		393	
Health		541	
Fire		530	

NICHOLAS COUNTY  
 CHARLES RING, FORMER COUNTY SHERIFF  
 SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS  
 May 25, 2002  
 (Continued)

Liabilities (Continued)

Paid Obligations- (Continued)

Tax Commissions Due Sheriff's Fee Account	\$	202
Interest Due Sheriff's Fee Account		33
Interest Due School		31
10% Penalty Due Sheriff's Fee Account		1,037
Advertising Fees Due Sheriff's Fee Account		170
Advertising Fees Due County		260

Total Paid Obligations	\$	14,138
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Unpaid Obligations - 2001 Taxes

Other Taxing Districts-

County	\$	53
Library District		13
Health District		17
Fire District		231

Bank Share Commissions Due Sheriff's Fee Account	2,987
Tax Commissions Due Sheriff's Fee Account	35
Interest Due Sheriff's Fee Account	12

3,348

Unpaid Obligations - 2000 Taxes

Other Taxing Districts-

2000 Taxes-

County	\$	1,772
School		5,421
Library District		496
Health District		586
Fire District		375

Bank Share Commissions Due Sheriff's Fee Account	2,695
Tax Commissions Due Sheriff's Fee Account	455
Interest Due Sheriff's Fee Account	14
Interest Due School	16

11,830

Total Liabilities	\$	29,316
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Total Fund Deficit as of May 25, 2002	\$	(682)
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## COMMENTS AND RECOMMENDATIONS





NICHOLAS COUNTY  
CHARLES RING, FORMER COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS

As of May 25, 2002

STATE LAWS AND REGULATIONS:

The Former Sheriff Should Eliminate \$682 Deficit In Tax Account

Based on available records, there was a \$682 deficit in the former Sheriff's 2001 Tax Account. This deficit resulted primarily from undeposited tax receipts during the 2001 tax collection period. We recommend the Sheriff deposit \$682 from personal funds to the tax account to eliminate this deficit.

*Former Sheriff's Response:*

*Will pay.*

The Former Sheriff Should Prepare A Tax Settlement By September 1 And Publish The Settlement

On June 11, 2002 the former Sheriff presented a listing of delinquent tax bills to the fiscal court as his settlement for 2001 Taxes. KRS 134.310 states, in part, "The sheriff shall annually settle his accounts for county and district taxes with the fiscal court after making settlement with the Revenue Cabinet. The report of the state and local settlement shall be filed with the county clerk's office and approved by the county judge/executive no later than September 1 of each year. The settlement shall show the amount of ad valorem tax collected, and an itemized statement of the money disbursed. The settlement shall be published pursuant to KRS 424." We recommend the Sheriff prepare a tax settlement, present the settlement to the fiscal court and county judge/executive, and publish the settlement as required by KRS 134.310.

*Former Sheriff's Response:*

*I agree with the comment.*

The Former Sheriff Should Implement Daily Cash Check-Out Procedures And Deposit Funds Intact On A Daily Basis

Tests of daily receipts conducted during the audit indicate the former Sheriff did not reconcile daily cash receipts to daily totals of paid tax bills and that deposits were made for collections on a weekly basis. The Uniform System of Accounts and Technical Audit Bulletin 93-002 require the Sheriff to reconcile daily cash receipts to paid tax bills and to deposit collections intact on a daily basis. We recommend the Sheriff implement daily cash check-out procedures and deposit funds intact on a daily basis as required.

*Former Sheriff's Response:*

*I agree with the comment.*

NICHOLAS COUNTY  
CHARLES RING, FORMER COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
As of May 25, 2002  
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

The Former Sheriff Should Obtain County Revenue Bond To Protect The County From Potential Loss

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Based on available records, the former Sheriff did not execute bond prior to the collection of 2001 Taxes. KRS 134.250 states, in part, "The sheriff shall annually, before he proceeds to collect the county levy, execute bond to the Commonwealth ... This bond shall be approved by the fiscal court, and when approved shall be recorded by the fiscal court in its minutes and filed by the fiscal court with the County Clerk." We recommend the Sheriff execute bond prior to the collection of taxes as required.

*Former Sheriff's Response:*

*I did obtain bond for 2001 taxes.*

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

Lacks Adequate Segregation Of Duties

The Sheriff's office lacks adequate segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily deposit, and receipts ledger.
- The Sheriff should compare the quarterly financial report to receipts and disbursements ledgers for accuracy. The Sheriff should also compare the salaries listed on the quarterly report to the individual earning records. Any differences should be reconciled. The Sheriff could document this by initialing the quarterly financial report.
- The Sheriff should periodically compare invoices to payments. The Sheriff could document this by initialing the invoices.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

*Former Sheriff's Response:*

*I agree with the comment.*

NICHOLAS COUNTY  
CHARLES RING, FORMER COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
As of May 25, 2002  
(Continued)

PRIOR YEAR:

The Sheriff Should Eliminate \$5,093 Deficit In Tax Account

The Sheriff eliminated the \$5,093 deficit by depositing personal funds into his tax account.

The Sheriff Should Close His Tax Account By Collecting All Receivables And Paying All Amounts Owed

The Sheriff collected all receivables due and paid all amounts owed in the prior year audit.

Lacks Adequate Segregation Of Duties

This comment has not been corrected and is repeated in the current year report.

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

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Members of the Nicholas County Fiscal Court

**Report On Compliance And On Internal Control**  
**Over Financial Reporting Based On An Audit Of The Financial**  
**Statement Performed In Accordance With Government Auditing Standards**

We have audited the former Nicholas County Sheriff's Settlement - 2001 Taxes as of May 25, 2002, and have issued our report thereon dated July 21, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the former Nicholas County Sheriff's Settlement - 2001 Taxes as of May 25, 2002 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Former Sheriff Should Eliminate \$682 Deficit In Tax Account
- The Former Sheriff Should Prepare A Tax Settlement By September 1 And Publish The Settlement
- The Former Sheriff Should Implement Daily Cash Check-Out Procedures And Deposit Funds Intact On A Daily Basis
- The Former Sheriff Should Obtain County Revenue Bond To Protect The County From Potential Loss



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Nicholas County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. This reportable condition is described in the accompanying comments and recommendations.

- Lack Of Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
July 21, 2003



